

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 LAGOS 000218

SIPDIS

SENSITIVE BUT UNCLASSIFIED

E.O. 12958: N/A

TAGS: [AMGT](#) [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [NI](#)

SUBJECT: WHY IS NIGERIA SO EXPENSIVE?

REF: Lagos 00115

1. (U) Summary: From ICASS to inspectors, anyone monitoring the cost of living in Nigeria should be warned that Nigeria is getting more expensive every day. Diplomatic and international management officers are particularly frustrated by prices that play havoc with any organization's plans. Why do we pay so much more each year for what seems like so much less? This cable explains why Nigeria's rise in prices in 2004-2005 will outstrip this year's budget. End summary.

Show Us the Money

2. (U) Wage increases have been federally mandated over the last four years for all Nigerians, but inflation has moved faster. Since 1999, for example, the U.S. Mission to Nigeria's staff have benefited from a 20 percent generalized cost of living increase, just about the increase that foreign missions were required by Nigerian law to give to their personnel during 1999-2003. During the same period, the all-urban consumer price index rose 62 percent. What we have seen at post is typical of what we are seeing now: wages are rising, but inflation is eroding purchasing power. The convergence of extra income, scarce capital investment in the non-oil sector, and stagnant productivity has jacked up prices without improving living standards.

3. (U) Prices are rising, in large part because Nigerian manufacturers are not competitive and cannot meet levels of domestic demand that outstrips supply. Inadequate infrastructure makes their operating costs too high relative to those of neighboring states. Domestic entrepreneurs invest little in plants and equipment because the country's manufacturing utilization rate barely clears 40 percent. Entrepreneurs also know that Nigeria's government budget deficits drive interest rates up while reducing the number of potentially profitable investment projects. Wary private investors thus channel their surplus funds to debt instruments paying high interest rates instead of risky capital investments that might raise manufactured output. Expenditures on physical insecurity and corruption add to rising prices.

Not Only Fish or Fowl

4. (U) Nigeria is so import dependent that Nigerian, diplomatic, and international organization management officers can never expect a respite from rising prices. The country imports virtually everything, from manufactured goods, capital equipment, and fuel to everyday food items like dried fish and rice. From 1999 to 2003, the value of manufactured imports rose 42 percent while the volume of such goods increased by much less. In a backlash against imported goods, the GON has published an ever-growing list of banned items despite knowing that the ever-resilient import sector will smuggle in whatever will sell. But smuggling isn't cheap and no shopper will be immune to the added cost of picking up the smuggler's tab.

5. (U) Energy costs have most probably doubled since 1999. Despite Nigeria's position as a major oil exporter, its barely functioning refineries force Nigeria to import much of its petrol at world prices. The price of energy products affects operating costs directly and indirectly. Refined petroleum products (gasoline, diesel fuel, lubricants, etc.) have risen about 90 percent since 1999, and that rise has had a substantial cumulative ripple effect on every sector of the economy that uses transportation - from mopeds to Mercedes.

Stand By, Please

6. (U) Not a day passes in Lagos without power being cut by the National Electric Power Authority. Without a steady supply of electricity, the din of the ever-present generators at every middle and upper class

residence and most businesses is the sound of the city. The cost of electric power in Nigeria relative to its neighbors is excessively high as a percent of operating costs. Estimates indicate that the differential is plus thirty percent if not more. Virtually all enterprises, public and private, need backup generators for emergency power. The wear and tear of constant power outages prematurely ages equipment, and the early repair or replacement compounds the cost of running every enterprise. Even Lagos' roadside barbers charge more for a haircut when their mini-generators must be used.

#### What Price Safety, Corruption

17. (SBU) The woeful state of Nigeria's roads raises the cost of operating and maintaining vehicles, probably by a factor of two, relative to what it would be if the roads were well maintained. Post's experience shows that our vehicles break down twice as fast as they should. Moreover, the cost of operating our fleet is high since security vehicles must often accompany our employees due to violent crime on the roadways. Our high security costs are not limited to safeguarding vehicles. Ensuring the physical security of almost every home and workplace calls for a private guard force. Year by year, the contract price for a constant number of guards rises, largely because of the reasons adduced above. This Mission's guard contract called for 325,185,337 naira in 2000; in October 2004, the figure will be 456,365,286. The increase is a whopping 40 percent.

18. (U) Of course, not all crimes are violent, but virtually all forms of crime fuel rising costs. Corruption in all sectors of the economy imposes additional costs. We cannot quantify these with respect to our operation, but suppliers doubtless pass on to us part of these "transactions" costs as they relate to their dealings with third parties. Moreover, management officers and businessmen operating in Nigeria find themselves hiring additional staff to ensure that no Nigerian employee has central control over materials, money or hiring. Nigeria's dysfunctional system of administration compels rational organizations to divide resources to conquer temptation to steal money, misappropriate resources and materiel, and thwart hiring practices based on family or ethnic ties rather than competency. While American business practices focus on efficiency by doing more with the necessary less, doing business in Nigeria requires having abundant material and human resources to deliver basic services, absorb inefficiencies, mitigate misappropriation, and install checks and balances to counter corruption and theft.

19. (U) Comment: Like every other business in Nigeria, the cost of goods and services that Mission Nigeria will provide to its employees and clients in 2004 will cost at least 12.5 percent more than it did in 2003. Meeting the rising cost of living and doing business in Lagos perplexes even the most thrifty management officer or businessman. In this season of Mission Program Plan preparation, we are keenly aware that accomplishing our goals for Africa's most populous country will be ever more costly as Nigeria becomes less efficient and more expensive. End comment.

HINSON-JONES